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SUBJECT: Gas Regulators On Lessons Learned From Russia-Ukraine Standoff

¶1. (U) SUMMARY: Post recently attended a closed-door workshop for European regulators on "Experiences from the January 2009 gas crisis" hosted by Austrian energy regulator E-Control. The workshop's central findings (as summarized by E-Control head Walter Boltz):
-- Europe suffered more from poor connectivity in the crisis than from inadequate storage;
-- State-level measures are often counterproductive in a regional crisis;
-- Eastern Europe needs more investment in pipeline systems, particularly to allow bi-directional gas flows;
-- The EU must expand regional gas markets; and
-- Private company initiatives were more effective than government actions, and will play a growing role for security of supply. END SUMMARY.

¶2. (SBU) Around 40 regulatory officials and other experts from EU countries attended the workshop (co-hosted by the Florence School of Regulation). The most prominent speaker was the Commission's Jean-Arnold Vinois, Head of the Energy Policy and Security of Supply Unit at DG TREN. (NOTE: Post has electronic versions of some presentations).

If Ukraine Can't Pay Cash, Russia will Cut Off Gas Supply Again

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¶3. (SBU) Vinois said a new Russia-Ukraine gas crisis is a monthly possibility. Ukraine must pay its Russian gas bill in cash each month, a formidable challenge for Ukrainians. Speaking off the record, Vinois opined that the cutoff to Europe was in Russia's interest more than Ukraine's: Russian leadership intended to use the crisis as leverage to force market conditions on Ukraine. He praised the Russia-Ukraine agreement to bypass intermediary trader Rosukrenergo as key to ending the crisis. Ukraine urgently needs investments in its gas pipeline infrastructure.

¶4. (U) Vinois pleaded for EU member states to
-- make it profitable for providers to invest in pipeline infrastructure;
-- improve transparency and data exchange among companies and regulators;
-- make national emergency plans mutually compatible; and
-- further diversify energy supply away from oil and gas.

Kaderjak: Russia Seeks To Increase Europe's Gas Dependence

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¶5. (U) Peter Kaderjak, Director of the University of Budapest's Regional Center of Energy Policy Research, presented a country-by-country study of gas crisis effects (NOTE: Post can provide via email). Kaderjak appealed for a market-based approach to gas security, since the worst crisis impacts occurred in countries without a well-functioning gas market and/or outdated regulations. Kaderjak recommended that

national regulators promote a regional market for gas storage and make transmission facilities multi-directional to facilitate gas flow reversals in times of shortage. Kaderjak praised the role of German energy giant E.ON for supplying Bosnia and Serbia via its subsidiaries without any push from governments.

¶16. (SBU) In Kaderjak's view, Russia is "on the offensive" in the gas sector, trying to make Europe more dependent on its gas resources. Russia's goal "has been achieved" in most of Central and Eastern Europe where 60-100% of heating and electricity depend on Russian gas -- and the EU imported that problem through its Eastern enlargement, Kaderjak opined. Building the proposed South Stream pipeline and/or a takeover of Hungarian MOL by Russian interests would intensify the trend, he said. Kaderjak spoke of philosophical differences within the EU: whereas the "new" Eastern European members consider Russia "part of the problem" (given their one-sided dependence on gas imports), the "old" EU member states see Russia as "part of the solution" to meet Europe's growing gas needs.

Austria's Market-Based Approach To Security of Supply

¶17. (U) Erich Juranek of Austrian oil/gas incumbent OMV and Thomas Heissenberger of the Austrian Grid Management Company/AGGM (an OMV subsidiary) highlighted Austria's market-based approach to managing the gas crisis. Austria is highly dependent on Russian gas: it gets 64 percent of contracted gas from Russia, but in fact 70-80 percent of its physical supply is Russian gas (via paper swaps with gas from Norway and Germany). Only 20 percent comes from domestic production.

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Austria has considerable storage, but maximum daily withdrawal capacity from Austria's five gas storage facilities is only 32 million cubic meters/mcm (versus daily winter consumption of 45 mcm). OMV bought supplementary gas via the German grids and German Wingas and Russian Gazprom, who control gas stored at the German grid facility in Haidach (Austria), allowing AGGM to tap that gas via Germany. Austria was able to compensate for the remaining shortfall (10 mcm) by reducing consumption in heavy industries and switching some electricity generation and district heating to oil and coal. Heissenberger said that gas providers could have supplied Austrian consumers through the end of March without noticeable restrictions.

¶18. (U) Jerabek emphasized the role of private companies in Austria's successful emergency response. Regulatory involvement was largely limited to supervision: gas providers themselves organized measures transparently and in a spirit of cooperation. By reversing some gas flows via the Baumgarten hub, Austria also provided transit services for "solidarity shipments" from Germany to southeast Europe (again, primarily coordinated by private companies rather than governments). The Austrian experience suggests that well-functioning security of supply requires a gas market that is deeply integrated both in terms of infrastructure and private market players who can work well across borders.

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